



readiness - response - recovery

Planning the long-term recovery of your farm

3. Am I still solvent, and what equity do I still have in the farm?

The answer to this question is important for several reasons. The difference between the value of your assets and your existing debt is your equity or net worth. Lenders look at this information before making a new loan or restructuring existing debt. The value of your equity is the collateral you have to offer when you seek a new loan because it tells the lender whether, in a worst-case situation, you could cover your debts by selling some or all of the farm assets. If your debts exceed the value of the farm assets, the farm is considered to be bankrupt and there is no collateral to back a new loan.

A disaster may have reduced the value of your farm assets significantly, and insurance and other assistance may not provide full compensation. You should estimate your equity or net worth to see if there is sufficient collateral for any new loans or credit needed for your farm reconstruction and disaster recovery efforts. Comparing your current net worth to what it was before the disaster



provides one measure of the financial damage caused by the disaster.

Equity or net worth is estimated by completing a **net worth statement**. It is sometimes called a balance sheet or financial statement. Farmers who have borrowed money are usually familiar with a net worth statement because lenders require one as part of the loan process. It lists your farm assets and their value on the one hand, and your liabilities on the other. For a family farm, it is helpful to include nonfarm assets and liabilities in a

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